

Department of Finance and Administration
Policy 2 - Recovery of Monies,
Refunds, Disallowances and Questioned Costs

Basis of Authority

According to T.C.A. 4-3-1007, the Department of Finance and Administration "shall have power and shall be required: (1) to maintain a system of general accounts embracing all the financial transactions of state government;...(6) to prescribe by means of written procedures... the responsibilities and duties required of each fiscal officer of any and all departments, institutions, offices, and agencies of the state government... (which) shall become effective upon approval by the commissioner of finance and administration and the comptroller of the treasury;...(10) to exercise the rights, powers, and duties (except the power to collect taxes), conferred by law upon the comptroller of the treasury ... insofar as these provisions relate to financial administration and general accounting control of the state government, involving the keeping of general accounts,.... (and) (11) in consultation with the comptroller of the treasury, to establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control..."

T.C.A. 9-4-607 also authorizes the Department of Finance and Administration, with the approval of the Comptroller of the Treasury, to develop procedures on refunds "for any revenues or receipts collected by any department or agency with the exception of those collected by the department of revenue (and) other provision of the law to the contrary notwithstanding..."

T.C.A. 56-4-105 also governs refunds issued by the Department of Commerce and Insurance, in accordance with procedures developed by the Commissioner of Finance and Administration and approved by the Comptroller of the Treasury.

Introduction

This policy statement consolidates several separate policies and procedures on refunds and supersedes the previous Policy Statement 02, "Accounting for Refunds of Prior Grant Expenditures" issued October 3, 1989. The purpose of this policy statement is to provide guidance and uniform treatment on both the recovery of monies previously paid out by State departments, as well as the issuance of refund payments by State departments.

Policy 2 has also been developed at this time in order to facilitate the State's compliance with the Cash Management Improvement Act of 1990. The regulations mandated by this law govern the distribution of federal funds to State departments.

Applicability and Effective Date

This policy statement is applicable to all State departments, agencies, boards and commissions (hereinafter referred to as departments) with the exception of (a) colleges and universities (b) the refunding of taxes, fines and levies currently set by statutory provisions for the Department of Revenue, and (c) refunds made by the Department of Treasury for unclaimed property and the Tennessee Consolidated Retirement System. This policy statement will be effective upon issuance.

This policy statement covers four categories:

- I. Recovery Of Monies
- II. Refunds Paid Out By State Departments
- III. Disallowances
- IV. Questioned Costs

The remainder of this policy statement consists of a discussion of these four categories, including accounting procedures.

Definitions

The following definitions apply to this policy statement:

Disallowance: A program expenditure which the grantor has determined is not permissible. A disallowance may result in a refund of monies to a grantor agency.

Questioned Costs: (a) An alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, other agreement or document governing the expenditure of funds, (b) a finding that, at the time of the audit, such cost is not supported by adequate documentation, or (c) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Recovery: A recovery occurs when a State department receives previously expended monies. This may include rebates and other types of program income that have been recovered

Refund: A refund occurs when a State department returns previously received monies to the federal government, third party or another State department.

Third Party: An entity which is not a State or federal agency.

I. RECOVERY OF MONIES

The recovery of monies can be classified into two categories: (a) recoveries from current year transactions and (b) recoveries from prior year transactions. This classification depends on when the initial transaction occurred and not from whom the monies are recovered.

A. Recovery Of Monies From Current Year Transactions

The following procedures should be followed by each department. **See Exhibit 1.**

Review the initial accounting transaction. The recovery should be coded to reverse the initial transaction, including any applicable STARS Grant File numbers. Thus, a transaction that was paid out as an expenditure should be coded as a reduction of expenditure when recovered. If the transaction was originally recorded as revenue, reverse the original source code when recovered.

B. Recovery Of Monies From Prior Year Transactions

The procedure to use for recovery of monies from prior year transactions is determined by whether the initial payment was for a grant, and whether the initial funding source was (a) state (b) federal or (c) other.

1. No Grant Involved

The following procedures should be followed by each department. **See Exhibit 2.**

- (a) First, determine if monies should be refunded to another State department or third party. If refundable, record in deferred revenue using Transaction Code 031. (Credit deferred revenue) (A Transaction Code is hereafter referred to as a TC.) Recovered monies that are subsequently expended should be moved from deferred revenue to the appropriate revenue source. Recovered monies that are subsequently refunded should be paid from deferred revenue.

(b) If monies are not refundable or are from your department, record where appropriate in Fund 11, 21, 25, or 65 using TC 079 source 507 (credit revenue). All other monies should be recorded using the original object code (TC 072) (credit expenditures).

2. Grant Involved

The following procedures should be followed by each department. The first step is to identify the initial funding source(s). **See Exhibit 3.**

a. State Monies - For Funds 11, 21, 25 or 65 record using TC 079, source 507 (credit revenue). For other Funds, if the initial transaction was revenue use the original source. If the initial transaction was an expenditure, use TC 072 (credit expenditures) and the original object code.

b. Federal Monies - For Funds 11, 12, 13, 15, 17, 20, 21, 25 or 60, record using TC 212 (credit revenue) source 812. For all other Funds, if the initial transaction was revenue, use the original source code. If the original transaction was an expenditure, use TC 072 (credit revenue) and the original object code.

c. Other monies (e.g. generally local or private). If the recovery of monies from a prior year transaction was originally paid from Fund 11, 12, 13, 15, 17, 20, 21, or 25, record using TC 212, source 840 (credit revenue) . These monies will either be subsequently expended, or refunded to a local agency using TC 022, source 840 (debit revenue). If the recovery of monies from a prior year transaction does not come from a Fund identified above, the recovery should be processed using the original source code for revenue, or using the original object code for the expenditure.

3. Resolution If Grant Involved

For the monies listed above in category 2.b. and in category 2.c., there are four different accounting

treatments: (a) Monies are subsequently expended under the same grant, (b) Monies are refunded to the grantor, (c) Monies are applied to another grant or (d) Disposition of monies has not been determined by fiscal year-end.

a. If the monies received through the recovery of a prior year grant expenditure are subsequently expended under the same grant number in the STARS Grant Control Table, the expenditure is recorded as it would have been had the transaction been the original expenditure (i.e., recorded as a standard current year expenditure).

b. If the monies are refunded to the grantor, the refund is recorded on STARS using TC 213 (debit revenue), and source code 812, Refund of Prior Year Federal Expenditures. This transaction is simultaneously recorded to the account "Refund to Grantor" in the STARS Grant File.

If monies received through the recovery of a prior year expenditure of local grant monies are refunded to the local government, this refund is recorded on STARS using TC 022 (debit revenue) and source code 840, Refund of Prior Year Local Expenditures. This transaction is simultaneously recorded to the account "Other Revenue" in the STARS Grant File.

c. The monies are applied to different grant numbers in the STARS Grant Control Table. In this situation, approval is obtained from the grantor agency to transfer the monies to another grant. A determination is then made if the funding source is federal funds. If it is, prepare a journal voucher using TC 012 (credit grant transfers-in) or TC 013 (credit grant transfers-out), with no source codes, which is intra-transfers-in and intra-transfers-out, respectively.

If funding source was not federal, determine if monies were from fund 11,12,13,15,17,20,21,26 or 60. If monies were from one of the above funds, then prepare a journal voucher using TC 028 or 027, Source 840. If not, journal voucher using TC 026 or 027 and original source code. Note that if the transfer involves two different allotment

codes, the journal voucher must also move the Refund of Prior Year Federal Expenditures between the allotment codes using TC 218 (debit revenue) and TC 219 (credit revenue).

d. At each fiscal year-end, the balance in the accounts, Refund of Prior Year Federal Expenditures and Refund of Prior Year Local Expenditures, shall be analyzed by the department for the purpose of determining the resolution of the monies held in those accounts. If there has been no determinable resolution of the monies recovered through the refund of a prior year expenditure of federal or local grant monies, the following year-end procedures should be followed.

Monies should be moved by the use of a journal voucher from the account, Refund of Prior Year Federal Expenditures or Refund of Prior Year Local Expenditures using TC 218 (debit revenue) and source code 812 or 840 and recognized as deferred revenue (TC 152 - credit deferred revenue) as of June 30. A reversing entry is then made on July 1 moving the monies from deferred revenue (TC 163) back into the account, Refund of Prior Year Federal Expenditures or Refund of Prior Year Local Expenditures (TC 219), until such time as a resolution is made.

C. Receipt of Federal Monies In Subsequent Fiscal Years For Which No Receivable Was Established At Year-End

A budgetary problem is presented for those departments for which a receivable was not established at year end, although funds were drawn in the current fiscal year. The State department should deposit these monies as federal revenue (Source 801) and notify the Director of Accounts as to the amount and circumstances involving this draw of federal monies. The Division of Accounts will then work with the Division of Budget to adjust the revenue collections accordingly.

II. REFUNDS PAID OUT BY STATE DEPARTMENTS

A. Refunds Paid To Federal Agencies

The following procedures have been developed for departments refunding monies to the federal agencies.

If the refund is from the current year, the following steps should be followed. **See Exhibit 4.** If the refund is from a prior year, the procedures for prior year refunds should be followed. **See Section I.B.2.b.** of this policy statement.

1. Whenever possible, the draw from the federal grantor should be suspended until the refund is expended.
2. If it is not possible to offset the refund within five working days, then the refund to grantor should be completed by warrant, ACH or wire transfer.

B. Refunds Paid To Third Parties or Another State Department

The following procedures should be followed for refunds to third parties or another State department. Federal funds may or may not be involved. **See Exhibit 5.**

1. The refund should be reviewed by the departmental fiscal officer or his/her designee and approved. A **disbursement voucher** should then be prepared for third parties or a **journal voucher** should be prepared for another State department.
2. The Director of Accounts should be notified in writing by the departmental fiscal officer of refunds over \$10,000 or of unusual refund requests. The Director's approval should be obtained prior to processing. The Director of Accounts may on an annual basis issue a blanket exception to departments on this requirement.

III. DISALLOWANCES

A disallowance is a program expenditure which the grantor has determined is not permissible. This may result in a return of federal funds to a grantor agency. The following steps should be followed by departments. **See Exhibit 6.**

- A. When written notification of a disallowance is received from a federal grantor, a determination should be made as to whether or not the disallowance will be appealed. The Chief of Accounts should be notified of unusual circumstances or

disallowances over \$10,000 for approval prior to processing. Notification of a decision to appeal, as well as final determination on all appeals should be sent to the Chief of Accounts. All refunds for disallowances should be made using Object Code 144.

B. If written notification of the disallowance has not been received, the department should wait until notification is made before acting on the disallowance. In the event a federal agency adjusts a draw or quarterly award for a disallowance, the Chief of Accounts should be notified in writing.

IV. QUESTIONED COSTS

Questioned costs may arise from material or immaterial instances of noncompliance with grant requirements and may result in a full or partial refund to the grantor. When a new questioned cost has been identified, departmental staff should review the item and take appropriate corrective action where necessary. In general, questioned costs should not be repaid until all issues arising from the instance of noncompliance have been resolved to the satisfaction of the State department and that department has been informed by the grantor in writing of a disallowance being issued.

Approval of the commissioner of Finance and Administration

I, David L. Manning, hereby approve of this Policy Statement 2 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed _____ Date _____

Approval of the Comptroller of the Treasury

I, William R. Snodgrass, hereby approve of this Policy Statement 2 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed _____ Date _____